

**REPORT OF THE AUDIT OF THE
BELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable Albey Brock, Bell County Judge/Executive
Honorable William Kelley, Former Bell County Judge/Executive
Members of the Bell County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated Bell County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BELL COUNTY FISCAL COURT

June 30, 2006

Ross & Company, PLLC has completed the audit of the Bell County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Bell County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$4,758,579 as of June 30, 2006. The fiscal court had unrestricted net assets of \$2,151,224 in its governmental activities as of June 30, 2006, with total net assets of \$4,683,523. In its business-type activities, total net cash and cash equivalents were \$75,056 with total net assets of \$75,056. The fiscal court had total debt principal as of June 30, 2006 of \$6,773,798 with \$766,787 due within the next year.

Report Comment:

- 2006-01 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2006-02 The Fiscal Court Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures
- 2006-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Funds
- 2006-04 The Fiscal Court Should Require The Jailer To Submit An Annual Financial Report To The County Treasurer
- 2006-05 The Fiscal Court Should Investigate Old Outstanding Checks

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND
DEVELOPMENT PROGRAMS

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable Albey Brock, Bell County Judge/Executive

Honorable William Kelley, Former Bell County Judge/Executive

Members of the Bell County Fiscal Court

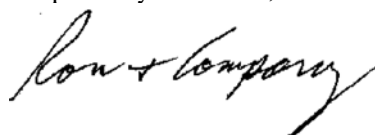
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bell County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2007, on our consideration of Bell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2006-01 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2006-02 The Fiscal Court Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures
- 2006-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Funds
- 2006-04 The Fiscal Court Should Require The Jailer To Submit An Annual Financial Report To The County Treasurer
- 2006-05 The Fiscal Court Should Investigate Old Outstanding Checks

Respectfully submitted,



Ross & Company, PLLC
Certified Public Accountants

July 20, 2007

BELL COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

William P. Kelley	County Judge/Executive
John Brock	Magistrate
David E. Gilbert	Magistrate
Charles F. Hunter	Magistrate
Coye Silcox	Magistrate
Andy Williams	Magistrate

Other Elected Officials:

William Neil Ward	County Attorney
James J. Hoskins	Jailer
Joan Asher Cawood	County Clerk
Brue Bennett	Sheriff
Geraldine Jeffers	Property Valuation Administrator
Clyde Creech	Coroner

Appointed Personnel:

Sharon Taylor	County Treasurer
Irma Brooks	Payroll Officer
Bruce Nunn	Road Supervisor

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BELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

BELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,100,224	\$ 75,056	\$ 2,175,280
Notes Receivable	51,000		51,000
Total Current Assets	<u>2,151,224</u>	<u>75,056</u>	<u>2,175,280</u>
Noncurrent Assets:			
Notes Receivable	260,177		260,177
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	763,360		763,360
Buildings	5,892,278		5,892,278
Equipment	787,703		787,703
Vehicles	547,749		547,749
Infrastructure Assets - Net of Depreciation	<u>1,054,830</u>		<u>1,054,830</u>
Total Noncurrent Assets	<u>9,306,097</u>		<u>9,306,097</u>
Total Assets	<u>11,457,321</u>	<u>75,056</u>	<u>11,481,377</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	155,000		155,000
Financing Obligation Payable	611,787		611,787
Total Current Liabilities	<u>766,787</u>		<u>766,787</u>
Noncurrent Liabilities:			
Bonds Payable	5,645,000		5,645,000
Financing Obligation Payable	362,011		362,011
Total Noncurrent Liabilities	<u>6,007,011</u>		<u>6,007,011</u>
Total Liabilities	<u>6,773,798</u>		<u>6,773,798</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,532,299		2,532,299
Unrestricted	<u>2,151,224</u>	<u>75,056</u>	<u>2,226,280</u>
Total Net Assets	<u>\$ 4,683,523</u>	<u>\$ 75,056</u>	<u>4,758,579</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,079,944	\$ 131,491	\$ 778,581	\$
Protection to Persons and Property	2,102,385	921,649	402,252	381,608
General Health and Sanitation	1,491,679			1,348,189
Social Services	27,125			
Recreation and Culture	120,189			
Roads	855,835		2,300,819	
Debt Service	1,069,243			
Capital Projects	477,064			1,439,573
Total Governmental Activities	10,223,464	1,053,140	3,481,652	3,169,370
Business-type Activities:				
Jail Canteen	48,572	72,176		
Total Business-type Activities	48,572	72,176		
Total Primary Government	\$ 10,272,036	\$ 1,125,316	\$ 3,481,652	\$ 3,169,370

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 Excess Fees
 Miscellaneous Revenues
 Interest Income
 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning (Restated)

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (3,169,872)	\$	\$ (3,169,872)
(396,876)		(396,876)
(143,490)		(143,490)
(27,125)		(27,125)
(120,189)		(120,189)
1,444,984		1,444,984
(1,069,243)		(1,069,243)
962,509		962,509
(2,519,302)		(2,519,302)
	23,604	23,604
	23,604	23,604
(2,519,302)	23,604	(2,495,698)
620,905		620,905
111,975		111,975
147,923		147,923
973,922		973,922
50,000		50,000
290,157		290,157
72,101		72,101
2,266,983		2,266,983
(252,319)	23,604	(228,715)
4,935,842	51,452	4,987,294
\$ 4,683,523	\$ 75,056	\$ 4,758,579

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Local Government Economic Development Fund
ASSETS					
Cash and Cash Equivalents	\$ 870,955	\$ 348,555	\$ 166,014	\$ 396,984	\$ 11,828
Total Assets	<u>\$ 870,955</u>	<u>\$ 348,555</u>	<u>\$ 166,014</u>	<u>\$ 396,984</u>	<u>\$ 11,828</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 6,446	\$ 60,214	\$ 10,760	\$ 1,508	\$ 1,000
Grants					
Unreserved:					
General Fund	864,509				
Special Revenue Funds		288,341	155,254	395,476	10,828
Debt Service Fund					
Total Fund Balances	<u>\$ 870,955</u>	<u>\$ 348,555</u>	<u>\$ 166,014</u>	<u>\$ 396,984</u>	<u>\$ 11,828</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Ambulance Fund	Judicial Buiding Project Bond Fund	Non- Major Funds	Total Governmental Funds
\$ 173,362	\$ 109,068	\$ 23,458	\$ 2,100,224
\$ 173,362	\$ 109,068	\$ 23,458	\$ 2,100,224
\$ 11,992	\$	\$ 3,360	\$ 91,920
			3,360
			864,509
161,370		20,098	1,031,367
	109,068		109,068
\$ 173,362	\$ 109,068	\$ 23,458	\$ 2,100,224

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,100,224
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	11,645,251
Accumulated Depreciation	(2,599,331)
Notes Receivable Are Not A Current Financial Resource And Therefore Are Not Reported in the Funds.	311,177
Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Revenue Bonds	(5,800,000)
Financing Obligations	(973,798)
Net Assets of Governmental Activities	\$ 4,683,523

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,223,234	\$	\$	\$
In Lieu Tax Payments	24,874			
Excess Fees	50,000			
Licenses and Permits	45,281			
Intergovernmental	1,004,479	1,358,719	271,776	942,101
Charges for Services	20		60,932	
Miscellaneous	209,263	3,684	35,052	4,152
Interest	71,501			
Total Revenues	<u>2,628,652</u>	<u>1,362,403</u>	<u>367,760</u>	<u>946,253</u>
EXPENDITURES				
General Government	1,738,840	21,167		
Protection to Persons and Property	285,417		1,087,245	10,758
General Health and Sanitation	72,923			26,500
Social Services	1,895			25,230
Recreation and Culture	1,317			107,344
Roads	14,175	1,222,660		109,050
Debt Service	122,654		7,500	
Capital Projects				
Administration	768,252	246,938	172,600	
Total Expenditures	<u>3,005,473</u>	<u>1,490,765</u>	<u>1,267,345</u>	<u>278,882</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(376,821)</u>	<u>(128,362)</u>	<u>(899,585)</u>	<u>667,371</u>
Other Financing Sources (Uses)				
Bond Proceeds				
Payment to Refunded Bond Escrow Agent				
Financing Obligation Proceeds			500,000	
Transfers From Other Funds	50,426		502,777	
Transfers To Other Funds				(502,777)
Total Other Financing Sources (Uses)	<u>50,426</u>	<u></u>	<u>1,002,777</u>	<u>(502,777)</u>
Net Change in Fund Balances	(326,395)	(128,362)	103,192	164,594
Fund Balances - Beginning (Restated)	<u>1,197,350</u>	<u>476,917</u>	<u>62,822</u>	<u>232,390</u>
Fund Balances - Ending	<u>\$ 870,955</u>	<u>\$ 348,555</u>	<u>\$ 166,014</u>	<u>\$ 396,984</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Local Government Economic Development Fund	Ambulance Fund	Judicial Buiding Project Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 572,788	\$ 1,796,022
				24,874
				50,000
				45,281
1,348,190	10,017	381,608	1,439,574	6,756,464
	794,060			855,012
	8,256		110,992	371,399
		292	300	72,093
<u>1,348,190</u>	<u>812,333</u>	<u>381,900</u>	<u>2,123,654</u>	<u>9,971,145</u>
1,065,773				2,825,780
	676,122		439,390	2,498,932
			1,392,256	1,491,679
				27,125
	11,528			120,189
		484,464	135,969	1,345,885
477,064				750,587
	189,095	2,000		477,064
<u>1,542,837</u>	<u>876,745</u>	<u>486,464</u>	<u>1,967,615</u>	<u>1,378,885</u>
				10,916,126
<u>(194,647)</u>	<u>(64,412)</u>	<u>(104,564)</u>	<u>156,039</u>	<u>(944,981)</u>
		5,870,000		5,870,000
		(6,079,683)		(6,079,683)
				500,000
	146,273			699,476
	(50,426)		(146,273)	(699,476)
	<u>95,847</u>	<u>(209,683)</u>	<u>(146,273)</u>	<u>290,317</u>
(194,647)	31,435	(314,247)	9,766	(654,664)
<u>206,475</u>	<u>141,927</u>	<u>423,315</u>	<u>13,692</u>	<u>2,754,888</u>
<u>\$ 11,828</u>	<u>\$ 173,362</u>	<u>\$ 109,068</u>	<u>\$ 23,458</u>	<u>\$ 2,100,224</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Change in Net Assets of Governmental Activities	\$ (252,319)
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The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

BELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 75,056
Total Assets	<u>75,056</u>
Net Assets	
Unrestricted	<u>75,056</u>
Total Net Assets	<u><u>\$ 75,056</u></u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund <hr/> Jail Canteen Fund <hr/>
Operating Revenues	
Canteen Receipts	\$ 72,176
Total Operating Revenues	<hr/> 72,176 <hr/>
Operating Expenses	
Cost of Sales	<hr/> 48,572
Total Operating Expenses	<hr/> 48,572 <hr/>
Operating Income	<hr/> 23,604 <hr/>
Change In Net Assets	23,604
Total Net Assets - Beginning	<hr/> 51,452 <hr/>
Total Net Assets - Ending	<hr/> <u>\$ 75,056</u> <hr/>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund <hr/> Jail Canteen Fund <hr/>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 72,176
Cost of Sales	(48,572)
Net Cash Provided By Operating Activities	<hr/> 23,604 <hr/>
Net Increase in Cash and Cash Equivalents	23,604
Cash and Cash Equivalents - July 1, 2005	<hr/> 51,452 <hr/>
Cash and Cash Equivalents - June 30, 2006	<hr/> <hr/> \$ 75,056 <hr/> <hr/>

**Reconciliation of Operating Income to
Net Cash Provided (Used) by Operating Activities**

Operating Income	<hr/> \$ 23,604 <hr/>
Net Cash Provided By Operating Activities	<hr/> <hr/> \$ 23,604 <hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Public Properties Corporation: Judicial Building Project

The Public Properties Corporation: Judicial Building Project (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of the Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

C. Bell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Ambulance Fund – The primary purpose of this fund is to account for the ambulance service activity of the county. The primary sources of revenue for this fund are collections for ambulance services.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office of Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Local Government Economic Development Fund – These funds may be spent for Local Economic Development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office of Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Judicial Building Project Bond Fund - The Judicial Building Project Fund accounts for the activities of the Public Properties Corporation: Judicial Building Project Fund, a blended component unit of the county. The Public Properties Corporation issued debt to build a judicial building. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Federal Grants Fund, Flood Mitigation Fund, Insurance Premium Fund, Abandoned Mine Land Water Project Fund, and Cumberland Gap Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Ambulance Fund, Local Government Economic Assistance Fund, Federal Grants Fund, Flood Mitigation Fund, Insurance Premium Fund, Local Government Economic Development Fund, and Abandoned Mine Land Water Project Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Corporation: Judicial Building Project Bond Fund and the Cumberland Gap Fund are presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation: Judicial Building Project Fund. The Governor's Office for Local Development does not require this fund to be budgeted.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned to it. The county does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 448,360	\$ 315,000	\$	\$ 763,360
Total Capital Assets Not Being Depreciated	448,360	315,000		763,360
Capital Assets, Being Depreciated:				
Buildings	7,273,081			7,273,081
Equipment	780,008	318,157		1,098,165
Vehicles	1,033,349	231,631	(21,405)	1,243,575
Infrastructure	735,459	531,611		1,267,070
Total Capital Assets Being Depreciated	9,821,897	1,081,399	(21,405)	10,881,891
Less Accumulated Depreciation For:				
Buildings	(1,264,851)	(115,952)		(1,380,803)
Equipment	(259,484)	(50,978)		(310,462)
Vehicles	(615,230)	(88,302)	7,706	(695,826)
Infrastructure	(96,090)	(116,150)		(212,240)
Total Accumulated Depreciation	(2,235,655)	(371,382)	7,706	(2,599,331)
Total Capital Assets, Being Depreciated, Net	7,586,242	710,017	(13,699)	8,282,560
Government Activities Capital Assets, Net	\$ 8,034,602	\$ 1,025,017	\$ (13,699)	\$ 9,045,920

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 135,055
Protection to Persons and Property	68,508
Roads, Including Depreciation of General Infrastructure Assets	167,819
Total Depreciation Expense - Governmental Activities	\$ 371,382

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Short-term Debt

Jail Bond Issue

On April 17, 2006, Bell County entered into an agreement for the financing of the purchase of jail land that will be used to for the construction of a detention center. The financing obligation was issued in the principal amount of \$500,000 that matures and becomes due on May 1, 2007. The payments are as follows:

Fiscal Year Ended June 30, 2006	Governmental Activities	
	Principal	Interest
2007	500,000	19,927

Note 5. Long-term Debt

A. Waterline Capital Lease Agreements

The county has entered into four capital lease agreements with the Kentucky Association of Counties Leasing Trust Program for the construction of various waterlines. The following is a description of the terms of each lease agreement:

- 1) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in October 1993, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2006, the principal balance remaining was \$74,000. Future lease payments are as follows:

Fiscal Year Ended June 30, 2006	Principal	Interest and Fees
2007	\$ 9,000	\$ 2,710
2008	10,000	2,349
2009	10,000	1,963
2010	11,000	1,561
2011	11,000	1,136
2012-2016	23,000	984
Totals	\$ 74,000	\$ 10,703

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$ 9,000
Long-Term Portion	65,000
Total	<u>\$ 74,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long Term Debt (Continued)

A. Waterline Capital Lease Agreements (Continued)

- 2) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in May 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2006, the principal balance remaining was zero.
- 3) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in September 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2006, the principal balance remaining was \$44,000. Future lease payments are as follows:

Fiscal Year Ended June 30, 2006	Principal	Interest & Fees
2007	\$ 4,000	\$ 2,631
2008	4,000	2,384
2009	4,000	2,139
2010	5,000	1,232
2011	5,000	1,550
2012-2015	22,000	2,970
Totals	<u>\$ 44,000</u>	<u>\$ 12,906</u>

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$ 4,000
Long-Term Portion	40,000
Total	<u>\$ 44,000</u>

- 4) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in March 1998, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2006, the principal balance remaining was \$193,177. Future lease payments are as follows:

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

<u>Fiscal Year Ended June 30, 2006</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 38,000	\$ 9,645
2008	39,000	7,558
2009	41,000	5,387
2010	43,000	3,117
2011	<u>32,177</u>	<u>1,022</u>
Totals	<u>\$ 193,177</u>	<u>\$ 26,729</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long Term Debt (Continued)

A. Waterline Capital Lease Agreements (Continued)

The Pineville Utility Commission has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the utility commission for the amount of the debt incurred by the County as follows:

Current Portion	\$	38,000
Long-Term Portion		155,177
Total	\$	<u>193,177</u>

B. Voting Machine Capital Lease Agreement

The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program during January 2002. The lease proceeds were used to acquire 40 voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2006, the principal balance remaining was \$40,400. Future lease payments are as follows:

<u>June 30, 2006</u>	<u>Principal</u>	<u>Interest & Fees</u>
2007	\$ 40,400	\$ 981
Totals	<u>\$ 40,400</u>	<u>\$ 981</u>

C. Ambulance Garage Capital Lease Agreement

The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program during November 26, 2003. The lease proceeds were used to acquire land and a building. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2006, the principal balance remaining was \$122,221. Future lease payments are as follows:

<u>Fiscal Year Ended June 30, 2006</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest & Fees</u>
2007	\$ 5,387	\$ 4,237
2008	5,551	4,050
2009	5,721	3,850
2010	5,895	3,647
2011	6,076	3,435
2012-2016	33,277	13,815
2017-2021	38,679	7,517
2022-2026	21,635	1,094
Totals	<u>\$ 122,221</u>	<u>\$ 41,645</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long Term Debt (Continued)

D. Judicial Building

- 1) On December 1, 2005, the Bell County Public Properties Corporation issued the 2005 Revenue Bond for the purpose of refinancing the 2000 General Obligation Bond that was used to construct the Farmer Helton Judicial Building.

Bell County and the Public Properties Corporation are acting as agents for the AOC in order to manage and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the AOC's payments in order to meet the debt service for the bonds.

The AOC, with the execution of the lease, has expressed its intention to continue to pay both the principal and interest in each successive biennial budget period until June 30, 2029; however, the lease does not legally obligate the AOC to do so.

During fiscal year end June 30, 2006, a principal payment of \$70,000 was made by AOC. As of June 30, 2006, the principal balance remaining was \$5,800,000. The future payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	\$ 155,000	\$ 226,039
2008	160,000	219,818
2009	165,000	213,399
2010	175,000	206,684
2011	180,000	199,673
2012-2016	1,030,000	882,429
2017-2021	1,265,000	656,194
2022-2026	1,555,000	378,904
2027-2029	1,115,000	67,447
Totals	<u>\$ 5,800,000</u>	<u>\$ 3,050,587</u>

- 2) On July 1, 2000, the Bell County Public Properties Corporation issued bonds in order to construct the Farmer Helton Judicial Building. On the same day, the Bell County Public Properties Corporation, Administrative Office of the Courts, (AOC) and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Judicial Building. The financing plan for the project is as follows:

Bell County and the Public Properties Corporation are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long Term Debt (Continued)

D. Judicial Building

During fiscal year end June 30, 2006, a principal payment of \$105,000 was made by AOC. Subsequent to this payment, the 2000 Bond Issue was refinanced by a 2005 Revenue Bond on December 1, 2006. As of June 30, 2006, the principal balance remaining for the 2000 Bond Issue was zero.

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bond	\$5,585,000	\$	\$5,585,000	\$	\$
Revenue Bonds		5,870,000	70,000	5,800,000	155,000
Financing Obligations	579,825		106,027	473,798	111,787
Governmental Activities Long-term Liabilities	<u>\$6,164,825</u>	<u>\$5,870,000</u>	<u>\$5,761,027</u>	<u>\$6,273,798</u>	<u>\$ 266,787</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$101,895 in interest on long-term bonds and financing obligations and \$967,348 of interest and issuance cost on bond issues.

Note 7. Commitments and Contingencies

In August 1999, Bell County received a Single-County Local Government Economic Development Fund Grant in the amount of \$800,000, which was assigned to the Bell County Industrial Foundation for disbursement to the Cumberland Gap Provision Company in the form of an \$800,000 loan. This loan was for a period of ten (10) years at three percent (3%) interest. Monthly interest only payments were due for the first three (3) years of the loan term. At the end of that three (3) year period, \$100,000 of the principal amount of the loan was forgiven, based on the Company's degree of compliance with the terms of the jobs requirement, and the remaining balance is being amortized at an interest rate of three percent (3%) per annum over the remaining life of the loan, to be repaid in equal consecutive monthly payments of principal and interest. Cumberland Gap Provision Company pays the note payments to the Bell County Industrial Development Foundation, which pays the payments over to the county, and the county pays the payments over to the Kentucky Economic Development Finance Authority. Upon default of the loan agreement, the Cumberland Gap Provision Company, The Bell County Industrial Foundation, and the Bell County Fiscal Court can be responsible for repayment to the Kentucky Economic Development Finance Authority. As of June 30, 2006, Cumberland Gap Provision Company was in substantial compliance with the terms of the loan agreement.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2006, Bell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Subsequent Events

- A. Bell County authorized General Obligation Improvement Bonds Series 2006 dated August 2006 in the principal amount of \$3,500,000 for the purpose of financing the acquisition, development, and construction of a detention facility.
- B. Bell County authorized General Obligation Improvement Bonds Series 2006B dated September 1, 2006 in the principal amount of \$1,250,000 and loaned the proceeds to the Bell-Whitley Community Action Agency, Inc. for the purpose of financing the cost of a portion of the construction and operation of the Bell-Whitley Community Action Agency, Inc. building.
- C. During July 2006, the county entered into a lease agreement with the Kentucky Association of Counties Lease Trust Program in the principal amount of \$300,000. The lease was acquired to finance the construction of a sewer line.
- D. During July 2006, the county entered into a lease agreement with the Kentucky Association of Counties Lease Trust Program in the amount of \$360,000. On August 25, 2006 the county loaned the lease proceeds totaling \$360,000 and Local Government Economic Development Funds totaling \$200,000 to McCoy Manufacturing, Inc. and G&J Willis, Inc. to finance the construction of an industrial building. In turn, a \$560,000 promissory note between the county and McCoy Manufacturing, Inc. was entered into on August 25, 2006 where McCoy Manufacturing, Inc. promises to pay the county one hundred eighty consecutive monthly payments of \$4,005 beginning the thirtieth day following the issuance of a certificate of occupancy.

Note 11. Prior Period Adjustments

Beginning net assets of governmental activities were decreased by \$9,928 due to misstatements in the Public Properties Corporation. Net assets of governmental activities were also increased by \$311,177 due to omission of a note receivable in the prior year. Beginning fund balance of the Judicial Building Project Bond Fund was also decreased by \$9,928.

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,183,000	\$ 1,183,000	\$ 1,223,234	\$ 40,234
In Lieu Tax Payments	15,000	15,000	24,874	9,874
Excess Fees	13,958	13,958	50,000	36,042
Licenses and Permits	30,000	30,000	45,281	15,281
Intergovernmental	740,270	940,752	1,004,479	63,727
Charges for Services	400	400	20	(380)
Miscellaneous	152,404	176,077	209,263	33,186
Interest	77,500	77,500	71,501	(5,999)
Total Revenues	<u>2,212,532</u>	<u>2,436,687</u>	<u>2,628,652</u>	<u>191,965</u>
EXPENDITURES				
General Government	1,599,615	1,788,488	1,738,840	49,648
Protection to Persons and Property	219,982	291,846	285,417	6,429
General Health and Sanitation	71,060	74,907	72,923	1,984
Social Services		1,895	1,895	
Recreation and Culture	520	1,520	1,317	203
Roads	13,000	14,200	14,175	25
Debt Service	122,807	122,807	122,654	153
Administration	850,235	805,711	768,252	37,459
Total Expenditures	<u>2,877,219</u>	<u>3,101,374</u>	<u>3,005,473</u>	<u>95,901</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(664,687)</u>	<u>(664,687)</u>	<u>(376,821)</u>	<u>287,866</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	181,646	181,646	50,426	(131,220)
Transfers To Other Funds	<u>(164,593)</u>	<u>(164,593)</u>		<u>164,593</u>
Total Other Financing Sources (Uses)	<u>17,053</u>	<u>17,053</u>	<u>50,426</u>	<u>33,373</u>
Net Changes in Fund Balance	(647,634)	(647,634)	(326,395)	321,239
Fund Balance - Beginning	<u>647,634</u>	<u>647,634</u>	<u>1,197,350</u>	<u>549,716</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 870,955</u>	<u>\$ 870,955</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,398,689	\$ 1,398,689	\$ 1,358,719	\$ (39,970)
Miscellaneous			3,684	3,684
Total Revenues	<u>1,398,689</u>	<u>1,398,689</u>	<u>1,362,403</u>	<u>(36,286)</u>
EXPENDITURES				
General Government	42,636	42,636	21,167	21,469
Roads	1,416,310	1,432,439	1,222,660	209,779
Administration	281,101	264,972	246,938	18,034
Total Expenditures	<u>1,740,047</u>	<u>1,740,047</u>	<u>1,490,765</u>	<u>227,813</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(341,358)</u>	<u>(341,358)</u>	<u>(128,362)</u>	<u>212,996</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(151,646)</u>	<u>(151,646)</u>		151,646
Total Other Financing Sources (Uses)	<u>(151,646)</u>	<u>(151,646)</u>		151,646
Net Changes in Fund Balance	(493,004)	(493,004)	(128,362)	364,642
Fund Balance - Beginning	<u>493,004</u>	<u>493,004</u>	<u>476,917</u>	<u>(16,087)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 348,555</u>	<u>\$ 348,555</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 260,403	\$ 260,403	\$ 271,776	\$ 11,373
Charges for Services	44,000	44,000	60,932	16,932
Miscellaneous	12,000	12,000	35,052	23,052
Total Revenues	316,403	316,403	367,760	51,357
EXPENDITURES				
Protection to Persons and Property	789,944	1,297,976	1,087,245	210,731
Administration	196,829	188,797	172,600	16,197
Total Expenditures	986,773	1,486,773	1,259,845	226,928
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(670,370)	(1,170,370)	(892,085)	278,285
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		500,000	492,500	(7,500)
Transfers From Other Funds	670,370	670,370	502,777	(167,593)
Total Other Financing Sources (Uses)	670,370	1,170,370	995,277	(175,093)
Net Changes in Fund Balance			103,192	103,192
Fund Balance - Beginning			62,822	62,822
Fund Balance - Ending	\$ 0	\$ 0	\$ 166,014	\$ 166,014

Reconciliation of Jail Fund

Total Expenditures - Budgetary Basis	\$ 1,259,845
Plus: Expenditures for Purchase of Equipment	7,500
Total Expenditures - Modified Cash Basis	<u>\$ 1,267,345</u>
Other Financing Sources (Uses) - Budgetary Basis	\$ 492,500
Plus: Proceeds from Financing Obligation	7,500
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 500,000</u>

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 610,000	\$ 610,000	\$ 942,101	\$ 332,101
Miscellaneous			4,152	4,152
Total Revenues	610,000	610,000	946,253	336,253
EXPENDITURES				
General Government				
Protection to Persons and Property	11,332	10,758	10,758	
General Health and Sanitation	26,500	26,500	26,500	
Social Services	13,200	25,750	25,230	520
Recreation and Culture	99,583	107,345	107,344	1
Road Facilities	110,000	110,000	109,050	950
Administration	20,000	262		262
Total Expenditures	280,615	280,615	278,882	1,733
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	329,385	329,385	667,371	337,986
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(502,777)	(502,777)	(502,777)	
Total Other Financing Sources (Uses)	(502,777)	(502,777)	(502,777)	
Net Changes in Fund Balances	(173,392)	(173,392)	164,594	337,986
Fund Balances - Beginning	173,392	173,392	232,390	58,998
Fund Balances - Ending	\$ 0	\$ 0	\$ 396,984	\$ 396,984

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 10,689	\$ 10,689	\$ 10,017	\$ (672)
Charges for Services	575,000	595,000	794,060	199,060
Miscellaneous	10,000	10,000	8,256	(1,744)
Total Revenues	595,689	615,689	812,333	196,644
EXPENDITURES				
Protection to Persons and Property	662,796	689,988	676,122	13,866
Recreation and Culture	8,933	11,552	11,528	24
Administration	224,453	236,058	189,095	46,963
Total Expenditures	896,182	937,598	876,745	60,853
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(300,493)	(321,909)	(64,412)	257,497
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	125,000	146,416	146,273	(143)
Transfers To Other Funds			(50,426)	(50,426)
Total Other Financing Sources (Uses)	125,000	146,416	95,847	(50,569)
Net Changes in Fund Balances	(175,493)	(175,493)	31,435	206,928
Fund Balances - Beginning	175,493	175,493	141,927	(33,566)
Fund Balances - Ending	\$ 0	\$ 0	\$ 173,362	\$ 173,362

BELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

LOCAL GOVERNMENT DEVELOPMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 4,480,888	\$ 4,480,888	\$ 1,348,190	\$ (3,132,698)
Total Revenues	4,480,888	4,480,888	1,348,190	(3,132,698)
EXPENDITURES				
General Government	1,668,252	1,668,252	1,065,773	602,479
Capital Projects	2,980,888	2,980,888	477,064	2,503,824
Total Expenditures	4,649,140	4,649,140	1,542,837	3,106,303
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(168,252)	(168,252)	(194,647)	(26,395)
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(30,000)	(30,000)		30,000
Total Other Financing Sources (Uses)	(30,000)	(30,000)		30,000
Net Changes in Fund Balances	(198,252)	(198,252)	(194,647)	3,605
Fund Balances - Beginning	198,252	198,252	206,475	8,223
Fund Balances - Ending	\$ 0	\$ 0	\$ 11,828	\$ 11,828

BELL COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**BELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

BELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Federal Grants Fund	Flood Mitigation Fund	Insurance Premium Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 3,360	\$ 19,185	\$ 913	\$ 23,458
Total Assets	<u>\$ 3,360</u>	<u>\$ 19,185</u>	<u>\$ 913</u>	<u>\$ 23,458</u>
FUND BALANCES				
Reserved for:				
Grants	\$ 3,360	\$	\$	\$ 3,360
Unreserved:				
Special Revenue Funds		19,185	913	20,098
Total Fund Balances	<u>\$ 3,360</u>	<u>\$ 19,185</u>	<u>\$ 913</u>	<u>\$ 23,458</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Federal Grants Fund	Flood Mitigation Fund	Insurance Premium Fund	AML-Water Project Fund
REVENUES				
Taxes	\$	\$	\$ 572,788	\$
Intergovernmental	580,800	547,034		311,740
Miscellaneous				
Interest			97	
Total Revenues	<u>580,800</u>	<u>547,034</u>	<u>572,885</u>	<u>311,740</u>
EXPENDITURES				
Protection to Persons and Property			439,390	
General Health and Sanitation	577,440	503,076		311,740
Debt Service		24,774		
Total Expenditures	<u>577,440</u>	<u>527,850</u>	<u>439,390</u>	<u>311,740</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>3,360</u>	<u>19,184</u>	<u>133,495</u>	
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(146,273)	
Total Other Financing Sources			<u>(146,273)</u>	
Net Change in Fund Balances	3,360	19,184	(12,778)	
Fund Balances - Beginning		1	13,691	
Fund Balances - Ending	<u>\$ 3,360</u>	<u>\$ 19,185</u>	<u>\$ 913</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

Cumberland Gap Fund	Total Non-Major Governmental Funds
\$	\$ 572,788
	1,439,574
110,992	110,992
203	300
<u>111,195</u>	<u>2,123,654</u>
	439,390
	1,392,256
<u>111,195</u>	<u>135,969</u>
<u>111,195</u>	<u>1,967,615</u>
	156,039
	(146,273)
	<u>(146,273)</u>
	9,766
	<u>13,692</u>
<u>\$ 0</u>	<u>\$ 23,458</u>

The accompanying notes are an integral part of the financial statements.

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BELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

<u>Program Title</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	<u>TOTAL FOR CFDA #</u>	
U.S. Department of Commerce					
<i>Administered by NOAA</i>					
Congressionally Identified Awards and Projects	<i>n/a</i>	11.469	\$ 500,940		
Congressionally Identified Awards and Projects	SG06-01	11.469	<u>76,500</u>	\$ 577,440	**
U.S Department of Housing and Urban Development					
<i>Passed through KY Dept of Local Govt:</i>					
Community Development Block Grants	M-03462081	14.228	91,641	91,641	
U.S. Department of Interior					
<i>Passed through KY Enviornmental & Public Protection Cabinet</i>					
Abandoned Mine Lands Reclamation Program	M-04169113	15.252	311,740	311,740	**
U.S. Department of Justice					
<i>Passed through The Center for Rural Development</i>					
Local Law Enforcement Block Grant	<i>n/a</i>	16.592	55,823	55,823	
U.S. Election Assistance Commission					
<i>Passed through KY State Board of Elections:</i>					
Help America Vote Act Requirement Payments	<i>n/a</i>	90.401	175,579	175,579	**
U.S. Department of Homeland Security					
<i>Passed Through KY Office of Homeland Security</i>					
Homeland Security Grant	M-04647883	97.004	2,500		
Homeland Security Grant	M-03254738	97.004	<u>67,472</u>	69,972	
Emergency Management Performance Grants	M-05029993	97.042	<u>7,238</u>	7,238	
<i>Passed Through KY Dept of Military Affairs</i>					
Hazard Mitigation Grant	DR-1407-005	97.039	120,872		
Hazard Mitigation Grant	DR-1471-005	97.039	<u>257,649</u>	<u>378,521</u>	**
Total U.S. Dept of Homeland Security				<u>455,731</u>	
TOTAL FEDERAL EXPENDITURES				<u>\$ 1,667,954</u>	

Tested as Major Program **

BELL COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Whitley County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Albey Brock, Bell County Judge/Executive
The Honorable William Kelley, Former Bell County Judge/Executive
Members of the Bell County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bell County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items: 2006-02, 2006-03, and 2006-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described are material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items: 2006-01 and 2006-04.

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC
Certified Public Accountants

July 20, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Honorable Albey Brock, Bell County Judge/Executive
The Honorable William Kelley, Former Bell County Judge/Executive
Members of the Bell County Fiscal Court

**Report On Compliance With Requirements Applicable To Each Major Program
And Internal Control Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Bell County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Bell County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bell County's management. Our responsibility is to express an opinion on Bell County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bell County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bell County's compliance with those requirements.

In our opinion Bell County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Bell County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bell County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

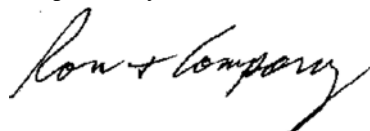
Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over financial reporting, which we have reported to management of the Bell County in a separate letter dated July 20, 2007.

This report is intended for the information of management, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC
Certified Public Accountants

July 20, 2007

BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

**BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County.
2. Three (3) reportable conditions relating to the audit of the financial statement are reported in the Independent Auditor's Report.
3. Two (2) instances of noncompliance that are material to the financial statements of Bell County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bell County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs of Bell County reported in Part C of this schedule.
7. The programs tested as major programs were: Congressionally Identified Awards and Projects (CFDA # 11.469), Abandoned Mine Lands Reclamation Program (CFDA # 15.252), Help America Vote Act Requirement Payments (CFDA # 90.401), and Hazard Mitigation Grant (CFDA # 97.039).
8. The threshold for distinguishing Type A and B programs was \$300,000
9. Bell County was not determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

2006-01 The Fiscal Court Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 states that the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. We recommend that the Fiscal Court review the Administrative Code and make necessary changes and modifications as appropriate. The review of the Administrative Code and Ethics Code should be reflected in the minutes of the Fiscal Court.

Current County Judge/Executive Albey Brock's Response: The Administrative Code and Ethics Code will be reviewed by the Fiscal Court each year.

2006-02 The Fiscal Court Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures

During the prior year exit conference, it was recommended that the county require the Bell County Volunteer Fire Department to submit adequate documentation for expenditures. We performed a follow-up of this recommendation and found that adequate and sufficient documentation was not always maintained. Therefore, we remind the county of the following:

The Bell County Volunteer Fire Department did not submit to the fiscal court adequate documentation to support expenditures made from insurance premium tax receipts. From the information that was submitted to the fiscal court, we noted numerous instances where expenditures were made without proper and adequate documentation. Insurance premium tax receipts are public funds. Therefore, it is mandatory that expenditures of public funds are made in accordance with state laws and regulations and that appropriate accounting and documentation is maintained. This includes the following practices:

BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006
(Continued)

2006-02 The Fiscal Court Should Monitor The Bell County Volunteer Fire Department And Require That Adequate Documentation Be Submitted To Support Expenditures (Continued)

- An original invoice should be maintained for all expenditures. Under no circumstance should expenditures be paid from a statement rather than an original invoice.
- Only expenditures that are reasonable and necessary for the operation of the fire department should be paid.
- Only expenditures that are allowable under state laws and regulations should be paid.
- Bids for materials, supplies, equipment, or services shall be made in accordance with KRS 424.260.
- Mileage logs should be maintained for use of public vehicles.
- Adequate documentation should be maintained for travel reimbursements.

We recommend that the fiscal court monitor the Bell County Volunteer Fire Department's compliance with the above recommendations.

Current County Judge/Executive Albey Brock's Response: The Fiscal Court will monitor and require adequate documentation for expenditures.

2006-03 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Funds

The County should maintain proper records for the Public Properties Corporation (PPC) – Sinking Fund and Construction Fund. Since the Fiscal Court is financially accountable and legally obligated for the debt of the PPC, it is a blended component unit of the Fiscal Court. The County should receive the bank statements for the PPC, maintain a receipts and disbursements ledger, reconcile the account monthly, and prepare a financial statement. We recommend the County maintain proper records for the PPC in the future.

Current County Judge/Executive Albey Brock's Response: The County Treasurer will maintain the required records for the Public Properties Corporation funds.

2006-04 The Fiscal Court Should Require The Jailer To Submit An Annual Financial Report To The County Treasurer

Our audit revealed that the jailer did not submit an annual financial report to the county treasurer as required by KRS 441.135(2). The State Local Finance Officer has prescribed the minimum accounting and reporting requirements pursuant to KRS 68.210. These are to be utilized by county jailers for jail canteen funds maintained pursuant to KRS 441.135. These requirements include, but are not limited to, the jailer submitting an annual financial report to the county treasurer. We recommend the fiscal court require the jailer to submit an annual financial report at the end of each fiscal year in the future.

Current County Judge/Executive Albey Brock's Response: The Bell County Jailer will submit an Annual Financial Report to the Fiscal Court yearly.

BELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006
(Continued)

2006-05 The Fiscal Court Should Investigate Old Outstanding Checks

During our audit, we noted some checks on the outstanding checklist were more than one year old; some were even two years old. To aid in the preparation of bank reconciliations and to reflect an accurate cash balance in the financial statements, all checks outstanding more than one year should be investigated and written off. We recommend that checks and other uncleared reconciling items that are over one year old be investigated and removed from the bank reconciliation and that the original transaction be reversed. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

Current County Judge/Executive Albey Brock's Response: The County Treasurer will monitor all outstanding checks and take necessary steps to correct.

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The County Lacks Adequate Segregation of Duties – Corrected

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC DEVELOPMENT AND ASSISTANCE PROGRAMS**

BELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM
BELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Bell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Bell County Judge/Executive



Bell County Treasurer

